

Response to Questions on the Retirement System Review

Request By: Supervisor Herrity

Question: Provide the assumptions used in the actuarial valuations.

Response: The June 30, 2016, actuarial valuations of each of the County's three retirement systems are available at the links below. The assumptions used are included in Appendix B of each report.

Employees' Retirement System:

https://www.fairfaxcounty.gov/dmb/2016_ers_valuation_report.pdf

Uniformed Retirement System:

https://www.fairfaxcounty.gov/dmb/2016_urs_valuation_report.pdf

Police Officers Retirement System:

https://www.fairfaxcounty.gov/dmb/2016_pors_valuation_report.pdf

Response to Questions on the Retirement System Review

Request By: Supervisor Foust

Question: How much savings would be realized each year from Package A and Package B?

Response: Package A and Package B, which were presented at the October 3, 2017, Personnel Committee meeting, would begin to generate savings in the Normal Cost of each retirement system as new employees are hired under the revised plan provisions. The savings would be minimal initially but would grow over time as the number of employees hired under the new plans increases. The table below provides the projected reduction in Normal Cost by fiscal year for Package A and Package B. The amounts are expressed in millions of dollars, and include Normal Cost reductions related to employees in all funds. These amounts also include projected growth in the County payroll as a result of annual employee compensation increases.

Projected Normal Cost Reduction by Year
(Normal Cost Reduction for All Funds in Millions)

Fiscal Year	Package A			Package B		
	Employees'	Uniformed	Police Officers	Employees'	Uniformed	Police Officers
2018	\$0	\$0	\$0	\$0	\$0	\$0
2019	0	0	0	0	0	0
2020	0	0	0	0	0	0
2021	(1)	0	0	0	0	0
2022	(1)	0	0	(1)	0	0
2023	(2)	(1)	0	(1)	0	0
2024	(3)	(1)	0	(1)	0	0
2025	(3)	(1)	(1)	(2)	(1)	0
2026	(4)	(1)	(1)	(2)	(1)	0
2027	(4)	(2)	(1)	(2)	(1)	(1)
2028	(5)	(2)	(1)	(3)	(1)	(1)
2029	(6)	(2)	(1)	(3)	(1)	(1)
2030	(6)	(3)	(2)	(3)	(1)	(1)
2031	(7)	(3)	(2)	(4)	(1)	(1)
2032	(7)	(3)	(2)	(4)	(2)	(1)
2033	(8)	(4)	(2)	(4)	(2)	(1)
2034	(9)	(4)	(3)	(5)	(2)	(2)
2035	(9)	(5)	(3)	(5)	(2)	(2)
2036	(10)	(5)	(3)	(5)	(2)	(2)

The Board's adopted retirement funding policy includes a commitment to not reduce the employer contribution rate of each system until the system reaches 100 percent funded status. As a result, under the current policy these Normal Cost reductions would not be realized until FY 2031 – 2033, when the systems are projected to be fully funded. This is shown in the tables below, which provide the Package A and Package B projected savings to all funds by year under the current retirement funding policy. For each retirement system, the projected total amount of employer contributions based on the current plan design is included in the first column, the projected total amount of employer contributions

after the proposed package of plan design changes is included in the second column, and the difference is included in the third column.

While the Normal Cost reductions would not result in immediate reductions in the employer contribution rates under the current retirement funding policy, they would allow the systems to reach fully-funded status earlier than currently projected. This is shown in the tables below as the employer contributions for each system are reduced to the normal cost earlier than they would under the current plan provisions. It should be noted that the large initial savings shown in FY 2031 – 2033 in the tables below are primarily the accelerated realization of the savings that will be generated when the unfunded liability is paid off.

Package A Projected Savings by Year
(Contributions from All Funds in Millions)

Fiscal Year	Employees'			Uniformed			Police Officers		
	Proj. Contrib. (Current) ¹	Proj. Contrib. (Pkg A)	Diff.	Proj. Contrib. (Current) ¹	Proj. Contrib. (Pkg A)	Diff.	Proj. Contrib. (Current) ¹	Proj. Contrib. (Pkg A)	Diff.
2018	\$185	\$185	\$0	\$68	\$68	\$0	\$44	\$44	\$0
2019	203	203	0	70	70	0	47	47	0
2020	218	218	0	72	72	0	51	51	0
2021	228	228	0	74	74	0	52	52	0
2022	235	235	0	76	76	0	53	53	0
2023	241	241	0	78	78	0	55	55	0
2024	248	248	0	80	80	0	56	56	0
2025	254	254	0	82	82	0	58	58	0
2026	261	261	0	85	85	0	60	60	0
2027	269	269	0	87	87	0	61	61	0
2028	276	276	0	89	89	0	63	63	0
2029	284	284	0	92	92	0	65	65	0
2030	291	291	0	94	94	0	66	66	0
2031	299	299	0	79	59	(20) ²	58	55	(3)
2032	308	308	0	44	40	(4)	56	43	(13) ²
2033	192	116	(76) ²	45	41	(4)	31	28	(3)
2034	91	83	(8)	46	41	(5)	32	29	(3)
2035	93	84	(9)	47	42	(5)	32	29	(3)
2036	96	86	(10)	48	43	(5)	33	30	(3)

¹ Retirement contribution levels are projected to increase due to the fringe benefit impact of annual employee compensation increases. The contribution levels shown include contributions from the General Fund, Schools, and all other County funds.

² Larger savings reflect the employer contribution rate decreasing to the normal cost earlier than currently projected due to the accelerated funding of the unfunded liability.

Package B Projected Savings by Year
(Contributions from All Funds in Millions)

Fiscal Year	Employees'			Uniformed			Police Officers		
	Proj. Contrib. (Current) ¹	Proj. Contrib. (Pkg B)	Diff.	Proj. Contrib. (Current) ¹	Proj. Contrib. (Pkg B)	Diff.	Proj. Contrib. (Current) ¹	Proj. Contrib. (Pkg B)	Diff.
2018	\$185	\$185	\$0	\$68	\$68	\$0	\$44	\$44	\$0
2019	203	203	0	70	70	0	47	47	0
2020	218	218	0	72	72	0	51	51	0
2021	228	228	0	74	74	0	52	52	0
2022	235	235	0	76	76	0	53	53	0
2023	241	241	0	78	78	0	55	55	0
2024	248	248	0	80	80	0	56	56	0
2025	254	254	0	82	82	0	58	58	0
2026	261	261	0	85	85	0	60	60	0
2027	269	269	0	87	87	0	61	61	0
2028	276	276	0	89	89	0	63	63	0
2029	284	284	0	92	92	0	65	65	0
2030	291	291	0	94	94	0	66	66	0
2031	299	299	0	79	71	(8) ²	58	56	(2)
2032	308	308	0	44	42	(2)	56	48	(8) ²
2033	192	151	(41) ²	45	43	(2)	31	29	(2)
2034	91	87	(4)	46	44	(2)	32	30	(2)
2035	93	88	(5)	47	45	(2)	32	31	(1)
2036	96	90	(6)	48	46	(2)	33	31	(2)

¹ Retirement contribution levels are projected to increase due to the fringe benefit impact of annual employee compensation increases. The contribution levels shown include contributions from the General Fund, Schools, and all other County funds.

² Larger savings reflect the employer contribution rate decreasing to the normal cost earlier than currently projected due to the accelerated funding of the unfunded liability.

Response to Questions on the Retirement System Review

Request By: Supervisor Storck

Question: Provide the analysis behind the decision to lower the discount rate from 7.5% to 7.25%.

Response: The discount rate was lowered from 7.5% to 7.25% in all three of the County's retirement systems based on the recommendations of the actuary for the retirement systems that were included in the 5-year experience study. The actuary's analysis and recommendations can be found in Section II – Economic Assumptions of the 2010-2015 Experience Study Results for each system, which are available at the following links.

Employees' Retirement System:

https://www.fairfaxcounty.gov/dmb/2015_fairfax_ers_experience_study.pdf

Uniformed Retirement System:

https://www.fairfaxcounty.gov/dmb/2015_fairfax_urs_experience_study.pdf

Police Officers Retirement System:

https://www.fairfaxcounty.gov/dmb/2015_fairfax_pors_experience_study.pdf

Response to Questions on the Retirement System Review

Request By: Supervisor McKay

Question: For Package A and Package B, provide a breakout of the total General Fund savings for each potential change included in the package.

Response: The tables below provide a breakout of General Fund savings by retirement system for each potential change included in Package A and Package B that were presented at the October 3, 2017, Personnel Committee meeting. The savings shown are the cumulative impact of each potential change. These amounts may increase or decrease if potential changes are added or removed from a package, or if the savings from a potential change is viewed in isolation.

The amounts below represent the fully realized savings, calculated using the General Fund employer contribution levels included in the FY 2018 Adopted Budget Plan. These savings will accumulate over time but are not expected to be fully realized for at least thirty years, when all current employees have retired or terminated employment and have been replaced with employees hired under the revised plans. As these amounts were calculated based on the current budget, they provide an estimate of potential savings in today's dollars. However, the actual savings when fully realized in 30 or more years will be larger due to continued growth in the County's payroll.

Package A

	ERS	URS	PORS	Total
Rule of 90 (ERS)	\$297,107	-	-	\$297,107
Minimum Retirement Age 60 (ERS) and 50 (URS/PORS)	\$668,491	\$429,501	\$823,505	\$1,921,497
5-Year Salary Averaging Period (All)	\$1,299,843	\$1,338,061	\$881,498	\$3,519,402
Eliminate Pre-Social Security Supplement (ERS/URS)	\$1,559,811	\$1,371,100	-	\$2,930,911
Limit Application of Retiree COLA (All)	\$371,384	\$1,602,369	\$1,194,662	\$3,168,415
Total	\$4,196,636	\$4,741,031	\$2,899,665	\$11,837,332

Package B

	ERS	URS	PORS	Total
Rule of 90 (ERS)	\$297,107	-	-	\$297,107
Minimum Retirement Age 60 (ERS) and 50 (URS/PORS)	\$668,491	\$429,501	\$823,505	\$1,921,497
5-Year Salary Averaging Period (All)	\$1,299,843	\$1,338,061	\$881,498	\$3,519,402
Limit Pre-Social Security Supplement to 5 (ERS) and 7 (URS) Years	\$0	\$396,463	-	\$396,463
Total	\$2,265,441	\$2,164,025	\$1,705,003	\$6,134,469

Response to Questions on the Retirement System Review

Request By: Supervisor Cook

Question: What would be the impact of using funding available as part of the Carryover Review to increase employer contributions to the retirement systems.

Response: The most recent actuarial projections estimate that the County's three retirement systems will reach 100 percent funded status between FY 2031 and FY 2033. It should be noted that those projections are based on various assumptions including 7.25 percent investment returns and, following the Board's adopted retirement funding policy, additional increases in the employer contribution rates in FY 2019 and FY 2020 to increase the amortization of the unfunded liability for each system from the current level of 98 percent to 100 percent.

Additional funding could be contributed to the retirement systems through the annual budget process or the quarterly reviews. However, based on actuarial analysis, additional contributions would not significantly shorten the period of time required to reach 100 percent funded status unless the additional contributions were extremely large. For example, the actuaries reviewed the amount of additional funding that would be required to enable each system to reach 100 percent funded status by FY 2030, which is one to three years earlier than currently projected. The actuaries have estimated that additional contributions of \$32.5 million, divided between the three retirement systems, per year for the next ten years would be required to fully fund all three systems by FY 2030.

Response to Questions on the Retirement System Review

Request By: Supervisor Cook

Question: Provide a description of the asset allocation approach used in the retirement systems, focusing on changes made since the great recession.

Response: The Boards of Trustees for the Fairfax County Employees' (ERS), Police Officers (PORS), and Uniformed (URS) Retirement Systems have adopted a risk-balanced investment approach to achieving the return objectives of the Systems. The investment philosophy seeks to broadly diversify the investment portfolios' risk exposures, in order to deliver as smooth a return pattern as possible through the course of the business cycle (peak, trough, expansion, contraction) and economic cycle (rising/falling inflation and growth). Maintaining this risk-balance and diversification gives the systems the desired exposure to each segment of the capital markets and provides opportunities to produce the expected returns over various market cycles. Stability of investment returns thus results in less volatility in employer contribution rates.

The three Fairfax County retirement systems, in general, have less equity exposure than both traditional "60/40 balanced" funds and their peers, in favor of greater exposure to other diversifying asset classes. The chart below compares the exposure risk allocation of a "60/40 balanced" fund, the 2008 risk allocation of the Fairfax County retirement systems, and the current risk allocation of the Fairfax County retirement systems. As shown in the chart, the typical 60 percent equity/40 percent fixed income portfolio actually has more than 80% of its risk coming from equity. The Fairfax County portfolios in 2008 were considerably better diversified, though they still had more than 50 percent of their risk coming from equity. Staff has continued to work to improve the diversification of the Fairfax County portfolios since 2008.

The two charts below show diversification based on economic cycle and business cycle. The typical 60 percent equity/40 percent fixed income portfolio is not well diversified by economic cycle or business cycle. While the Fairfax County portfolios in 2008 were better diversified than the typical 60 percent equity/40 percent fixed income portfolio, they had a heavy bias towards a rising growth and expansionary environment. The current Fairfax County portfolios are well-diversified across economic and business cycles. As a result of their greater exposure to other diversifying asset classes, the systems by design give up a little during equity bull markets and gain a little in more volatile markets.